



Consent

Agenda Item 3c

June 11, 2012

ITEM NAME: Report to Legislature – Placement Agent Activity Report

PROGRAM: Total Fund

ITEM TYPE: Total Fund – Action Consent

RECOMMENDATION

Approve transmittal of the Report to Legislature – Placement Agent Activity Report.

EXECUTIVE SUMMARY

Chapter 668, Statutes of 2010 (AB 1743, Hernandez) enacted several reforms related to the activities of individuals and firms who seek to influence state pension investment transactions by requiring them to be subject to the same registration, reporting and ethics rules that govern lobbyists under the Political Reform Act. These individuals and firms, commonly referred to as placement agents, are hired in connection with an investment transaction as a finder, solicitor, marketer, consultant, broker or other intermediary to raise money or investments from, or to obtain access to, an investor such as CalPERS. The bill also required no later than August 1, 2012, that CalPERS report to the Legislature on the use of placement agents in connection with investments made by the retirement system.

Since July 1, 2010, CalPERS has received almost two thousand proposals via its online investment proposal submission portal. Of those proposals received, CalPERS has funded seven new investments which disclosed the usage of a placement agent in connection with the CalPERS investment. Additionally, there have been five amendments to existing relationships where a placement agent was utilized. Attachment 1 contains a full description of these investments, the placement agent firm, and compensation amount.

BACKGROUND

CalPERS has taken aggressive steps to implement policies and reforms that strengthen the pension fund's accountability and ethics, and to ensure full transparency. The actions are aimed at providing CalPERS members, employers and the public confidence in the System's decision-making process and ensure the CalPERS Board is meeting its fiduciary duty. On May 11, 2009, the CalPERS Board of Administration (Board) adopted a formal policy for *Disclosure of Placement Agent Fees, Gifts and Campaign Contributions* to require the disclosure of payments to placement agents in connection with CalPERS investments in or through external

managers. The goal of this policy is to help ensure that CalPERS investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to CalPERS. Later in 2009, the Board supported state legislation by Assembly Member Hernandez, AB 1584 (Chapter 301, Statutes of 2009) to, among other things, require all public pension systems to adopt a policy requiring the disclosure of fees paid to investment placement agents, require the disclosure of campaign contributions and gifts made by placement agents to public retirement board members, and lengthen post-employment restrictions on influencing retirement board actions for former retirement system executives and board members. The CalPERS policy was later adopted by the Board as a regulation (Title 2, Section 559, of the California Code of Regulations).

CalPERS implemented its online investment proposal submission portal on July 1, 2010. The purpose of the portal is to provide all external managers equal access to CalPERS, to ensure that all external managers follow the same proposal submission requirements, and that CalPERS utilizes consistent, objective criteria and methods to evaluate all proposals.

In 2010, the Board co-sponsored AB 1743, along with State Treasurer Bill Lockyer and State Controller John Chiang. AB 1743 required placement agents to register as lobbyists. The bill also specifically requires CalPERS to report to the Legislature by August 1, 2012, on the following:

- a) The number of, and descriptions of, those investments made by the retirement system through external managers that have compensated placement agents in connection with the investments.
- b) A description of those external managers based on the size of assets under their control.
- c) The annual performance of investments secured through placements agents.

The detailed report is included in Attachment 1. The report demonstrates that since July 1, 2010, through the reporting period, placement agents received compensation not to exceed \$1.85 million in connection with CalPERS investments.

As noted above, CalPERS has taken aggressive steps to implement policies and reforms that strengthen the pension fund's accountability and ethics and to ensure full transparency. Many of these actions are aimed at reducing the need for placement agents in the investment world. The attached Fact Sheet – Attachment 2, *CalPERS Strengthens Accountability, Transparency and Ethics* highlights these efforts.

ATTACHMENTS

Attachment 1 – Report to Legislature – Placement Agent Activity Report

Attachment 2 – CalPERS Fact Sheet; *CalPERS Strengthens Accountability, Transparency and Ethics*

KAMI NIEBANK
Chief
Investment Policy & Business Services Division

JOSEPH A. DEAR
Chief Investment Officer